

**The Impact of the Post Cold War Crises on the Political Economy of Japan:
How the Gulf War, the Kobe earthquake, the Sarin chemical attack and the terrorist attack
on September 11, 2001 have changed Japan**

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Abstract

The three major security crises in the last decade in Japan- the response to the Gulf War, the earthquake in Kobe, and the Sarin chemical attack on Tokyo subway lines- provided the major turning points of Japanese security policy of the post cold war era. These events have also greatly affected Japanese fiscal policy and politics.

The lessons from the failed attempt to send Self Defense Forces to the Gulf led to the act of allowing the SDFs' participation in international peacekeeping operations and the new Guideline for "the situation in areas surrounding Japan". The new political coalition which was formed to pass the tax increases in order to finance the Gulf War paved the way to the era of coalition governments in the 1990s and today. The earthquake in Kobe and the Sarin chemical attack made the Japanese people realize the importance of the SDFs in times of catastrophic events.

These events, combined with the changes in the international situation, led to the revision of the National Defense Program Outline. These catastrophic events also led to the strengthening of the prime minister's office and some improvements of the law enforcement system. The "construction bonds" principle for fiscal policy was finally broken on the occasion of the Kobe earthquake, and the issuance of government bonds has been accelerated since then.

All of these changes relate to the current response of the Koizumi Cabinet to the recent terrorist attacks in America and the Japanese budget deficit.

As to the future of both security policy and fiscal policy, the preparedness of the Japanese people to "sacrifice" is important.

1. Introduction

The Gulf War, the earthquake in Kobe, and the Sarin chemical attack on Tokyo subway lines were the major challenges to Japanese security in the last decade. These crises actually provided the major turning points of Japanese security policy of the post cold war era. These events also greatly affected Japanese fiscal policy and domestic party politics. All of these changes relate to the current policies of the Koizumi Cabinet in response to the September 11 terrorist attacks and the Japanese budget deficit.

This paper, by comparing the situation in the cold war era with the present one, will clarify the changes in Japanese security policy, fiscal policy and domestic politics incurred by these recent events and their relationship to the current policies taken by the Koizumi Cabinet.

The following sections are organized as follows: section 2 provides an overview of Japanese security policy, fiscal policy and politics in the cold war era; section 3 presents the changes made in response to the Gulf War and its aftermath; section 4 provides the changes under the Murayama Cabinet, which includes the response to the Kobe earthquake and the Sarin chemical attack. This section also refers to the revision of the National Defense Program Outline and the establishment of the new Guidelines for Japan-U.S. Defense Cooperation, both of which summarized the changes in security policy. Section 5 presents the responses taken by the Koizumi Cabinet against the September 11 terrorist attack and the budget deficit, and the problems left unsolved. Section 6 discusses the factors that affect the future of these policies.¹

2. The Situation in the Cold War Era

Most of the arguments on Japanese security policy in the cold war era had been centered on the Constitutional issue.

The famous Article 9 of the Constitution states in the first paragraph: “the Japanese people forever renounce war as a sovereign right of the nation and the threat or use of force as means of settling international disputes”, and in the second paragraph: “In order to accomplish the aim of the preceding paragraph, land, sea, and air forces, as well as other war potential, will never be maintained.”

When it was promulgated in 1946 under American occupation, the Constitution reflected

¹ The view I present in this paper is my personal one. It has no relationship with the official view of the Ministry of Finance.

the strong intention of the occupation forces to never allow any revival of the Japanese military. But when the Korean War broke out in 1950, General Douglas MacArthur had to deploy his forces to the Korean Peninsula. To fill the power vacuum in Japan, MacArthur ordered the immediate establishment of the National Police Reserve, which finally developed into the Self-Defense Forces in 1954.

Since then, to remain consistent with its Constitution, the Japanese government has based its defense policy on an interpretation of the Constitution which holds that the Constitution neither denies the inherent right of the nation to defend itself nor denies the possession of “the minimum forces necessary” to exercise this right.

Following the end of its post war occupation, like Germany who actually revised its Constitution to rearm, Japanese conservatives also tried to revise the Constitution to stipulate more clearly the country’s rearmament. The Constitution requires a two-thirds majority vote of both Houses in the Diet to initiate any constitutional amendment and a majority of the national electorate to ratify it. So, in 1955, the Conservative prime minister Ichiro Hatoyama oversaw the merger of Japan’s conservative parties into a single party, called the Liberal Democratic Party, and dissolved the Lower House in order to win the required two-thirds majority vote. To counter this development, the divided opposition parties also merged into a single party, the Socialist Party. In the resulting election, the LDP won by a considerable margin but failed to capture the two-thirds majority. This is the origin of the long lasting so-called “regime 55” in which the LDP keeps political power and the Socialist Party behaves as a major opponent.

Article 51 of the Charter of the United Nations sanctions collective self defense, which is the right of a nation to defend its allies against attack as if an attack upon an ally were a direct attack upon itself. As to the article’s impact on Japanese defense policy, the official interpretation of the Constitution does not deny collective self defense itself as an inherent right of the nation but denies the exercise of it as unconstitutional. This interpretation is still maintained now. The basic idea is that the use of force is allowed only as the “minimum necessary” measure to defend against an urgent direct attack upon the country. In the era of “regime 55”, people did not imagine that the Self-Defense Forces would participate in operations overseas either in bilateral or multilateral cases.

Under the restriction of the Constitution and under the Japan-U.S. Security Treaty, under which the United States substantially compensated Japan for its defense capability, Japan was able

to spend relatively little money on defense and to focus on economic growth.

The secret meeting held in Washington in 1953 between Mr. Hayato Ikeda, Prime Minister Shigeru Yoshida's personal envoy, and Mr. Robertson, the U.S. Deputy Undersecretary of State, in which the two sides discussed Japan's postwar rearmament policy, is an example that illustrates the postwar structure in which the requirements of economic growth determined the scale of Self-Defense Forces. According to the memoir of Kiichi Miyazawa, who attended the meeting in his position as Mr. Ikeda's secretary, although the initial request from State Secretary John Foster Dulles had been for a Japanese ground force with over 300,000 personnel, Mr. Ikeda succeeded in negotiating the number of personnel down to 180,000.² The consequence of this meeting, combined with the difficulty in recruiting members of young generations who have grown up in a postwar pacifist society into the military, was that this number of ground force personnel was maintained during the entire cold war era and was assumed to be "the minimum necessary" force consistent with the restriction of the Constitution.

Even with a small ratio of defense spending, due to Japan's long lasting rapid postwar economic growth the scale of the Self-Defense Forces expanded until 1976. In that year, reflecting the change brought about in the domestic economic situation after the first oil shock and the changes in the international scene resulting from the first détente between the U.S. and the Soviet Union, the scale of the defense forces was fixed at the level of 1976 by the old National Defense Program Outline under the Miki Cabinet.

In the 1980s, when tensions between the U.S. and the Soviet Union increased again, in response to requests from the U.S., Japan improved the "quality" of its weapons, especially those weapons that were effective in defending against Soviet submarines. Tokyo also gradually took over the expenses of the U.S. forces stationed in Japan, under a policy, which was called the Host Nation Support or "Omoiyari Yosan".

With respect to fiscal policy, the Japanese government enjoyed good financial conditions in the first half of the cold war era and suffered from a considerable amount of budget deficits in the second half of this era.

To ensure fiscal discipline, Japanese Public Finance Law allows the government to issue public bonds only for financing public work projects, equity participation and lending. This

² See Kiichi Miyazawa. *Tokyo-Washington no mitsudan*. Jitsugyo-no-nihon, 1956.

principle is called the “construction bonds” principle. Generally, the term of the redemption of Japanese government bonds is 60 years. The idea is to allow the issuing of bonds only for acquiring assets, which also benefit future generations. Britain has the same kind of principle called the “golden rule”. This principle had been basically maintained during the long postwar period until 1975. In 1975, because of the recession caused by the first oil crisis, the Japanese government had to begin issuing special deficit-financing bonds to finance current non-investment expenditures by enacting a special law. Appendix 1 shows the trend of government bond issues during the last quarter century. Once allowed, the outstanding deficit-financing bonds expanded rapidly, and it took 15 years to reduce and eliminate the issuance of the bonds. Only with the help of the “bubble economy”, did the Japanese government finally succeed in eliminating the issuance of new deficit-financing bonds in the 1990 fiscal year, which started April 1990, just four months before the invasion by Iraq into Kuwait.³

3. The Response to the Gulf War Under the Kaifu Cabinet

3.1. The preceding political situation- The impact of the Consumption Tax

When Iraq invaded Kuwait in August 1990, the political situation in Japan did not seem to be suitable for any drastic changes in policies. The invasion occurred in the aftermath of the dispute over the Consumption Tax, which was at the center of the partisan confrontation at the time.

In April 1989, the Japanese government introduced the new Consumption Tax. It was packaged as part of overall tax reform with net revenue reduction by income tax cuts and the abolishment of old excise taxes with their distorted rates. But at the beginning, the new tax was unpopular among voters, especially housewives.

Combined with the bribery scandal, which was occurring at the same time, the Consumption Tax contributed to the defeat of the ruling LDP in the Upper House election held in summer 1989. The Socialist Party, a major opponent of the new tax, put up many female candidates and succeeded in winning a large percentage of the housewife’s vote. The LDP lost its

³ For more detailed information, see Budget Bureau, Ministry of Finance, Japan. *The Japanese Budget in Brief 2001*. or <http://www.mof.go.jp/english/index.htm>.

majority in the Upper House after holding power for over 30 years in Japan's postwar period.

Under the Japanese Constitution, the Lower House has superiority over the Upper House in the selection of the prime minister, passage of the budget, and the ratification of treaties. Because the LDP still occupied the majority of the Lower House, it was able to keep its position in power under Prime Minister Toshiki Kaifu. However, the management of the Diet became very difficult because every bill other than those exceptions noted above had to be also approved by the Upper House.

The Socialist Party proposed a tax reform bill which included the abolition of the Consumption Tax and created alternative revenue sources, which was approved by the Upper House. To defeat this legislation, the LDP proposed a revision of the Consumption Tax, which was approved by the Lower House.

It was only in June 1990, when a conference on the treatment of the Consumption Tax was initiated in the Diet, that Japan's political leaders attempted to solve this legislative impasse. However, the difference between the parties was so large that the future of the Consumption Tax was still uncertain. The partisan confrontation incurred by the tax dispute was still strong in the Diet when Japan, like the rest of the world, was confronted with the first serious international crisis of the post cold war world: Iraq's invasion of Kuwait.

3.2.The failed attempt to send Self Defense Forces to the Gulf

In the fall of 1990, to make a "visible" contribution to the international coalition against Iraq, the Kaifu Cabinet decided to propose a bill allowing the Self-Defense Forces to participate in Peace Keeping Operations as well as providing logistical support for the activities of multinational forces operating under United Nations resolutions intended to end Iraq's occupation of Kuwait.

Reflecting the divided opinions even within the government and the LDP over Japan's response to the Gulf crisis, the bill had to be prepared within a short period.

The disputes in the Diet over the bill focused on whether the proposed operations would not constitute "the integral part of the use of force" which is prohibited by the Constitution. The deliberations often came to a complete halt because the opposition parties were not satisfied with the explanations from the government. The media and public opinion also seemed to be divided.

The bill did not pass, even in the Lower House.⁴

3.3.The beginning of the Gulf War and Japanese measures to finance the war

When war broke out in the Gulf on January 17, 1991, Japan, which had not contributed a single soldier or civilian to the anti-Iraq coalition, had to devise a response to this new serious turn in the crisis.

Japan had already spent two billion dollars to finance the international activities in the Gulf from the proceeding budget. But the situation was totally changed by the outbreak of hostilities. Japan pledged to pay an additional nine billion dollars to finance the Gulf War.

The situation was urgent and nine billion dollars was too large a sum to be fully raised in the proceeding budget. The Japanese government decided to propose a bill to raise the nine billion dollars immediately by issuing bonds and to redeem them through specific revenues, including temporary tax increases. The tax increases were believed to be necessary to make the Japanese people share the “visible” pain with people in countries participating in the Gulf War as well as to maintain fiscal discipline.

The issuance of the bonds was a deviation from the “construction bonds” principle. Both the issuance of bonds and tax increases required a special law which needed to be approved by both Houses.

The initial proposal by the government and the LDP financed all of the redemption of the bonds by the tax increases, but the centrist parties, including the Komeito Party, strongly requested cutting budget expenditures. Without their cooperation, the bill could not pass the Upper House. The government and the LDP finally accepted the request and revised the proposal. The proposed tax increases were reduced.⁵

⁴ The dispute inside the Japanese government and in the Diet is depicted in Ryuuichi Teshima, *1991 nen nihonno haisen*, shincho-sha,1993.

⁵ The final proposal was as follows. The equivalence of 9 billion dollars at that time was 1,170 billion yen. 201.1 billion yen was raised in the 1990 budget. The residual, 968.9 billion yen was financed by the issuance of government bonds.

To redeem these bonds, the defense budget after FY 1991 was cut by 100.2 billion yen, the budget for the apartments for public servants in FY 1991 was cut by 0.7 billion yen, the contingency fund in FY 1991 was cut by 200 billion yen. The residual, 668 billion yen was financed by the temporary tax increases.

The tax increases included 440 billion yen from the special corporation tax and 228 billion yen from the special petroleum tax. The amounts of both taxes in the initial proposal were 590 billion yen and 460 billion yen. The initial proposal also included the special tobacco tax of 140 billion

With the cooperation from these centrist parties, the bill passed the Diet on March 6th, shortly after the Gulf War ended. It was the first time when non-LDP parties supported the budget and tax increases. In hindsight, it was the laying of the groundwork for the new coalition in the 1990s and now.

Two arguments in the Diet over the bill financing the Gulf War should be remembered:

One was the strong request from the Diet that the payment should not be spent on weapons and ammunitions. It reflected the former dispute over "the integral part of the use of force".

In hindsight, this request had only political meaning because the payment by Japan covered only about 20% of the total costs of the Gulf War, and the costs spent on items other than weapons and ammunitions were far above 20% of total costs. But this request showed the national reluctance in Japan toward participating in the war, even by financing the military efforts of other countries.

Another argument was the debate over the relationship between the "construction bonds" principle and a war. The prohibition against the Bank of Japan's directly underwriting government bonds has the same background.

After the Great Depression, in the 1930s, Finance Minister Korekiyo Takahashi took a Keynesian policy of issuing government bonds underwritten by the central bank to stimulate the Japanese economy. Mr. Takahashi succeeded in helping the economy to recover, but after this success he tried to cut the military budget, which consumed almost half of the total budget, and was assassinated in the coup d'état attempt by the army. His successors did not resist further requests from the military for continually expansion of the military budget, which ultimately led to hyper inflation just after the end of W.W.? .

The idea in 1991 to issue government bonds to finance a war reminded the Japanese people of this disastrous experience, and this issue was repeatedly raised in the deliberations in the Diet.

yen but it was dropped from the final proposal. (As to the total scheme, see *Kunino yosan 1991*, Public Finance Study Group in the Budget Bureau, Ministry of Finance, Japan. As to the tax scheme, see *Kaiseizeihou no subete 1991*, Ookurazaimukyokai.)

3.4.The sequel of the Gulf War-the compromise on the Consumption Tax, minesweepers, PKO, the way to the new coalition

The first dividend of the new political situation was reaped in tax policy. The conference on the treatment of the Consumption Tax reached a bipartisan agreement including all major parties except the Communist Party to revise the tax as a reform for the present and the bill was approved by both Houses in May 1991.⁶

When the Gulf War was over, the newly restored government of Kuwait made a public notice of gratitude to countries contributing to the liberation of its territory through the placement of advertisements in major U.S. newspapers. The list included the names of 30 countries to which Kuwait was grateful, Japan was not on this list. This oversight was widely reported by the media, and it left many Japanese feeling disappointed that their contribution to the war had been overlooked.⁷

After the Gulf War was over, there was room for Self-Defense Forces to be deployed in the Gulf even within the restrictions of the conventional laws because there was no longer a possibility they would be involved in “the use of force”. The Japanese government deployed minesweepers belonging to the Maritime Self-Defense Force to the Gulf. Because they were deployed so late, the minesweepers had to deal with the most difficult part of searching for underwater mines during the hottest season in the Gulf. Though the minesweepers were the smallest ships that the Maritime Self-Defense Force had, their deployment became the most publicly evaluated activity of Japan relating to the Gulf War.

The next chance to demonstrate the Japanese contribution to the international community came in 1992 when the long-running civil war in Cambodia finally ended and the need for Peace Keeping Operations in that war-torn Southeast Asian nation became clear. Based on the new political coalition formed at the time of the Gulf War, the Japanese government under the Miyazawa Cabinet succeeded in passing the bill allowing the participation of the Self Defense Forces in PKO.

But because of the continuing concern over the Constitution’s prohibition against the use

⁶ The revision included the addition of tax exempt to some goods and services in the fields of welfare, education and the like, the new tax exempt for house rents, and the reform of special treatments for small traders.

⁷ See Teshima, 1993.

of force, the activities of the Self-Defense Forces were restricted. Activities which might have necessitated the use of weapons, such as policing a cease-fire, stationing and patrolling in a buffer zone, searching at a checkpoint, and overseeing the collection, custody and disposal of abandoned weapons and the like were suspended until the suspension was lifted by another law in the future. The activities in which the Self-Defense Forces could participate were still limited to logistical support and humanitarian relief. With the same concern, the use of weapons was strictly restricted to the case of legitimate self-defense and emergency evacuation, which was narrower than the international standard.

The new political situation made the former opposition parties to more positively participate in policy-making. It paved a way to the non-LDP coalition government under Prime Minister Hosokawa in 1993.

4.The Changes under the Murayama Cabinet (1994-1996)

The Non-LDP coalition government lasted less than one year. The LDP succeeded in coming back to power by supporting its long-lasting rival, the Socialist Mr. Tomiichi Murayama. The Murayama Cabinet was the final end of “regime 55” and in hindsight, impacted greatly on both security policy and fiscal policy in Japan.

When he came to power, PM Murayama had to declare the drastic change of stance of his own party on two major political issues, the approval of the Self-Defense Forces and the Consumption Tax. During his term in office, PM Murayama even made a decision to raise the Consumption Tax rate in exchange for income tax cuts⁸ and revised the National Defense Program Outline after almost 20 years. Two major catastrophic events, which are major topics of this paper, also occurred during his term.

4.1.The impact of the earthquake in Kobe

In the early morning of January 17, 1995, a significant earthquake occurred beneath the streets of the central Japanese city of Kobe.

As in New York following the terrorist attack of September 11, the earthquake in Kobe

⁸ The tax reform bill proposed by the Murayama Cabinet in October 1994 and approved by the Diet in November 1994 included the income tax reduction starting from CY 1994 and the tax increase of Consumption Tax starting from April 1997. The tax increase was implemented under the Hashimoto Cabinet.

cut off telephone communications between that city and the rest of the world. Consequently, there was no information in Tokyo about the severity of the damage in the critical hours immediately following the earthquake. It was only several hours later when pictures from helicopters chartered by the media began to appear on TV that people in Tokyo realized the seriousness of the disaster. The TV footage projected a shocking scene of overturned highways and collapsed buildings.

The epicenter of the quake was just below the city. Because of this, the victims in Kobe came mainly from damaged buildings, not from fires, differentiating the effect of this earthquake from other major earthquakes in Japan's past. A considerable number of victims were buried alive and died before they could be rescued. The number of casualties finally amounted to over 6,000.⁹

Same as occurred in the United States after September 11th, the Kobe earthquake brought out some virtues of postwar Japanese society. Survivors in Kobe were patient, behaved in good order and cooperated with each other. There were hardly any crimes exploiting the situation. As one of the biggest ports in Japan, Kobe had a good number of large ethnic communities in the city. There was no bad behavior against these people. The activities of volunteer groups, especially those comprising members of younger generations, were so prominent that people's image of these groups totally changed.

But, just as the September 11 attack exposed serious shortcomings in America's intelligence system and homeland security structure, the Kobe earthquake revealed some major defects of crisis management in the Japanese government. There were two major lessons drawn from the event; one was the importance of the concentration and management of information to support the prime minister's decision, another was the importance of the role of the Self-Defense Forces in catastrophic events and that of the quick deployment of those forces.

The Murayama Cabinet was severely criticized for its delayed response to the Kobe earthquake.

The Disaster Prevention Bureau in the National Land Agency was the first government agency to receive blame. But the Bureau's basic mission was the ex ante planning of the prevention of disasters and the size of its staff numbered only about 30 persons. They had no original sources of information and no statutory authority to order other agencies to act. Everybody

⁹ According to the count by the Fire Defense Agency, the number was 6,308 as of December 27, 1995.

demanded so much from the Bureau staff in the immediate aftermath of the quake and they went beyond their capacity very quickly.

The local fire and police authorities had much on-site information and manpower, and their situation could be relayed to the prime minister. But there was no crisis management specialist in the prime minister's office who could analyze the information as it was received and report it to the prime minister in an organized way.

In the case of Kobe, the TV pictures taken from helicopters were an extremely important source of information for government officials on the damage which had occurred. However, there were no Japanese government agencies with TV cameras which could be placed in helicopters with the footage relayed directly back to Tokyo by electrical transmission. In addition, the infrastructure of information in the prime minister's office was also poor.

Another lesson drawn from Kobe was the importance of the role of the Self-Defense Forces in catastrophic events and that of the quick deployment of the forces.

In Kobe's case, because the transportation as well as the on-site supply of water, gas, electricity, telecommunications and other utilities had been stopped, the rescuers needed to be highly self-sufficient.

The interruption of transportation prevented most of the city government workers who commuted in from suburban areas from reaching the city. The fire and police authorities functioned relatively well from the beginning but they were short of the tools and machines necessary for rescue activities. The authorities in neighboring cities and prefectures also came to help in rescue activities, but because they could not expect to be supplied with food, water and fuel in Kobe, they often took extra time preparing for these shortages, delaying their arrival in the city.

The organization that was most self-sufficient and had the largest capacity for rescue activities in the affected neighborhoods was the Division of Ground Self-Defense Force. The Kansai area, which includes Kobe, has had a longer history as a political capital than Tokyo, and traditionally has had a relatively strong anti-central government feeling in general and an uneasy relationship with the Self-Defense Forces, but this view changed overnight.

But at first, the response of the force was slow. Consequently, the Division became another target of criticism. The conventional law required the explicit request from the governor of the prefecture for the dispatch of troops and because of the interruption of communications, the request was significantly delayed and so as a result was the dispatch of the force. This system also

reflected the bad memory of the coup d'état attempt in the 1930s which paved the way to the military dominance in prewar Japanese politics.

With respect to these points, major improvements have since been realized in Japan's natural disaster response policy.

Helicopters equipped with electronically transmitted TV camera systems were supplied to many government authorities by the supplementary budget.

Under the new law amended soon after the earthquake, the Self-Defense Forces can be dispatched for rescue operations during times of disaster without the request from the governor in cases of emergency.

The reform of the central government which was realized last year strengthened the prime minister's office considerably. There now exists a vice minister class official who specializes in crisis management attached to the prime minister's office.

The new prime minister's office building which will be completed this year will have much better technology for information functions.

The Kobe earthquake also affected Japanese fiscal policy.

The budget response for the recovery and the reconstruction of the city seemed to work relatively well compared with previous stages of responses by the government. Because of many precedents of disasters in Japan, there were many established systems of spending to support victims and subsidize the recovery and reconstruction efforts. In addition, a special minister in charge of reconstruction was appointed, and under his coordination, special measures such as special high rates of subsidies, special low interest loans, and special tax treatments were realized. The first supplementary budget mainly for initial recovery passed the Diet in February, just the next month after the disaster. The expenditures of the original budget of the coming fiscal year starting in April were concentrated on Kobe reconstruction efforts at the implementation level and another supplementary budget for reconstruction also passed the Diet in May.

The main problem was the long term.

It was the first case of the issuance of special deficit-financing bonds without specific

revenue for redemption since 1990¹⁰.

It was also the first time in postwar history that an annual defense budget was increased by a supplementary budget¹¹. The defense spending is never thought to be a “constructive” expenditure, which Japanese Public Finance Law allows to be financed by issuing public bonds.

Furthermore, because authority over the defense budget is considered to be key for civilian control over the military, there had been a fixed idea that it should not be changed in a short time on the occasion of supplementary budget.

These changes might contribute to a more flexible allocation of resources. But the fact that even the defense budget could be increased by a supplementary budget inevitably encouraged other constituencies to request more distribution of the budget for their needs.

Considering the catastrophic nature of the Kobe earthquake, it was inevitable that fiscal discipline would have to be temporarily eased. But as Appendix 1 shows, once the principle was broken, the issuance of government bonds expanded rapidly.

4.2. The Sarin chemical attack on Tokyo subway lines

Two months after the Kobe earthquake, on the morning of March 20, 1995, the Sarin chemical attack on Tokyo subway lines took place. Twelve persons were killed and thousands of others suffered from the Sarin gas.

The culprits were members of the religious cult group called “AUM Supreme Truth”, led by the self-styled “guru” Shoukou Asahara.

When the attack occurred, the victims even did not know the cause of their suffering. The cause was identified as Sarin on the same day, but people still did not know who committed the

¹⁰ Since 1990, special deficit-financing bonds had been issued twice but both of them had had some specific revenue for redemption. One was to finance the Gulf War as I already mentioned, and another was to finance the income tax cuts determined in late 1994, the previous year.

In the latter case, the bonds were issued to finance the temporary revenue reduction between income tax cuts starting in 1994 and the scheduled Consumption Tax rise starting in 1997 and were scheduled to be redeemed by the net tax revenue after 1997. Because the margin of net tax revenue was relatively small, the term of redemption was scheduled to be 20 years, much longer than that of Gulf War case, but a kind of fiscal discipline was still maintained in the scheme.

¹¹ From the perspective of civilian control, Japanese government has had a specific framework to limit the amount of defense budget since 1976. From 1976 to 1986, there had been the ceiling that the annual defense budget was limited within 1 percent of GNP. Since 1987, there has been the ceiling that the sum of the defense budget in 5 years of mid-term plan is limited within the amount of the mid-term plan. The increase of the defense spending by supplementary budget is

attack.

Two days later, on the morning of March 22nd, the police raid of the AUM facilities, located on the skirts of Mt. Fuji, started.

As with the Kobe earthquake, the chemical attack against civilians showed the important role of Self-Defense Forces in catastrophic events. Only the Ground Self-Defense Force had specialists, equipment and knowledge in this field. This time, based on an official request from the governor, they were dispatched to the contaminated subway lines. With full cooperation from the Ground Self-Defense Force, the police authorities were able to start their investigation.

Because the structure of the AUM facilities was like a labyrinth, the investigation took many weeks. During this tense time, rumors of the next attack circulated everywhere. Many hoaxes took place in public places.

The Japanese government was on the highest alert. The supplementary budget in May was drawn up to include the expenditures necessary to tighten the nation's internal defenses against the next potential attack. It was the first time that emergency anti-crime expenditures became a pillar of a supplementary budget.

The police investigation gradually revealed the scope of the secret activities of AUM. One of the AUM facilities was found to be a factory for the manufacture of Sarin gas. It was in May when Mr. Asahara was discovered in the facility and arrested. The rumored next attack never happened. People finally regained peace of mind.

This event demonstrated some of the virtues of public and private sector workers, especially Tokyo subway workers, who unselfishly put themselves at risk in rescue activities. But it also revealed many defects of the Japanese law enforcement system. Because most of these defects were based on characteristics of Japanese postwar society itself, it proved to be more difficult to fix them in the short run.

As an open democratic society like the U.S., Japan has the same vulnerability against terrorist attacks. In addition, as a reaction to the prewar militarism, the Japanese people are very reluctant to give the government authority which has any potential to violate human rights. Even if given authority, the government agency in charge often refrains from full use of it to avoid criticism.

The Ministry of Education, which was formally in charge of supervising religious

also subject to this ceiling.

corporations, had done little with the AUM group in general before the attack.

Before the Sarin attack, the AUM group had made a failed attempt to produce and distribute anthrax. This had led to trouble with AUM's neighbors because of a nasty smell resulting from the test, but the local police authorities had refrained from intervening because they could find no clear evidence of crimes at that time.

Based on the postwar reforms, Japanese police authorities are segmented prefecture by prefecture. The original reform by the U.S. created municipal police departments but because of their inability to deal with vicious crimes in the early 1950s, they were merged into prefectural police agencies. The National Police Agency has the authority to distribute a part of the national budget to prefectural agencies and to appoint top officials of the prefectural police departments but it traditionally did not have authority to command individual criminal investigations except in some limited cases.

Segmented investigations between prefectural police authorities sometimes caused problems that hindered law enforcement efforts. In the AUM case, before the subway attack in Tokyo, the AUM group kidnapped and killed the entire family of an anti-AUM lawyer in the neighboring prefecture and even killed 7 people by Sarin gas in another neighboring prefecture but both of these crimes had remained unsolved. In the latter case, the prefectural police authority consistently kept another person under suspicion, who finally turned out to be a victim of AUM.

Poor intelligence is also characteristic of the Japanese government.

Since 1952 Japan has the Subversive Activities Prevention Act and the Public Security Investigation Agency. The Act gives the Agency statutory authority to investigate subversive organizations and, when necessary, the power to request the dissolution of them.

But the investigation authority of the Agency is limited to a voluntary basis and the Agency has no compulsory power such as the police authorities have. Because the application of the Act had been based on the cold war paradigm and the manpower of the Agency had been relatively small, the Agency had historically focused on the activities of radical leftist groups and, until 1995, had never requested the dissolution of any organizations.

After the Sarin attack, the AUM religious corporation was dissolved by the court order. The Public Security Investigation Agency requested the dissolution, which meant the prohibition of assembly for Japanese citizens for the first time in postwar history. The anti-terrorism special teams which are trained and have special equipment against terrorism were established in the

police.

But the Public Security Examination Commission, the independent commission who has authority to rule on the dissolution of private organizations, rejected the Agency's request to dissolve AUM in 1997.

Only in 1999 was a new law enacted to control the activities of organizations that were responsible for committing indiscriminate mass murders in the past, giving the Public Security Investigation Agency new authority to investigate and impose some controls on groups such as AUM.¹²

Some progress was also made recently. New laws enacted in 2000 strengthened the punishment against organized crimes and allowed investigation authorities to intercept electric communications in cases involving organized crimes, drugs, gun crimes and mass stowaways. The National Police Agency's right to command prefectural police authorities was also expanded in 1996 and again in 2000¹³.

4.3.The revision of the National Defense Program Outline

The revision of the National Defense Program Outline which was made by the Murayama Cabinet in the same year as the Sarin attack, (November 28, 1995), clearly showed the changes in defense policy based on the situation this paper has already covered.¹⁴

The Outline is a combination of the description of the principles of defense policy and the annexed table that defines a concrete scale of Self Defense Forces.¹⁵

As to the international situation, the new Outline recognizes the "demise" of the "confrontation between East and West", but also cites "new kinds of dangers", including the proliferation of weapons of mass destruction, and complicated and diverse regional conflicts.

As to the required role of defense capability, it explicitly mentions "response to

¹² The chronological table about the events relating to the "AUM Supreme Truth" is shown in <http://www.npa.go.jp> (the Web site of the National Police Agency). The introduction of the Public Security Investigation Agency is shown in <http://www.moj.go.jp> (the Web site of the Ministry of Justice).

¹³ The right to command was expanded to organized crimes of wide area in 1996 and to the cases seriously relate to international relations and national interests in 2000.

¹⁴ For more details about the background of the new Outline, see Takafumi Sato. *Shin Bouei Taikou, Shin Chuukibou to Heisei 8 Nendo Boueiyoukan*. Finance April-May 1996 ,Ookurazaimukyoukai

¹⁵ For the full version of the National Defense Program Outline, see <http://jda.go.jp> (the Web site of the Defense Agency)

large-scale disasters” and “contribution to efforts for international peace” as well as “national defense”.

The Outline consequently places the restructuring of Japan’s defense capabilities in the context of these changes and the country’s serious fiscal situation. Maintaining the basic idea of “minimum necessary” capability, it calls for Japan’s defense forces to have more “compact” capability on the one hand, while calling for “enhancing necessary functions” on the other hand. In a word, the main idea of the restructuring was the creation of a smaller but more workable Self Defense Forces.

The personnel quota of Ground Self-Defense Force is a typical example of how the Outline tries to create a smaller but more workable force under the new situation. Although the 180,000 personnel number arrived at in Washington back in 1953 had long been an “inviolable number”, it had never been filled because of the difficulty in recruiting members of the postwar generations into the armed forces. The actual number of real personnel had been 150,000 or 160,000 at best.

Japan’s continuing serious fiscal situation and the rapid aging of the population will make the situation worse. This personnel shortfall might prevent the Self-Defense Force from operating at full capacity, but it was not considered a fundamental threat to national security because in the cold war era, there was never an imminent threat of actual armed conflict. It was assumed that any actual hostilities would occur after a period of deteriorating relations between the superpowers, allowing time for an adequate defensive build-up. But in the post cold war era, the personnel shortage would threaten to undermine the SDF’s ability to participate in PKO, respond to large-scale disasters, or deal with “new kinds of dangers” such as biological or chemical weapons attacks, when the response would have to be immediate, with no time for preparation, although the scale of these operations are presumed smaller than those of assumed combat scenarios in the cold war era.

In order to fulfill these expected requirements, the new Outline reduced the number of the regular personnel to 145,000 but at the same time strengthened the ready reserve personnel to 15,000. The regular personnel forces would be fully activated at very beginning of any future security crisis and the reserve personnel forces would join the operation within a short interval of time.

In the political context, the “smaller” force was appealing to the Socialist Party , while the

“workable” force appealed to the LDP.

The new Outline also deals with the diversified role of Japan-U.S. security arrangements.

Security arrangements between the two countries are positioned as “playing a key role in achieving peace and stability in the surrounding region of Japan”. The Host Nation Support is positioned explicitly as a necessary effort to enhance the security arrangements between Japan and the United States. In short, it argues the Japan-U.S. security arrangements act as a “public good” for the region surrounding Japan and stresses the positive meaning of the Host Nation Support, which contributes to this “public good”.

The most controversial issue of the new Outline at that time was the new description of the response to “a situation in areas surrounding Japan”. Tensions on the Korean Peninsula were increasing at that time and the major concern of defense specialists in both countries was the extent to which Japan could support U.S. forces in the event of possible combat on the Korean Peninsula.

As to cooperation in the case of aggression against Japan, the Guideline was established in 1978. The new Outline endorsed the start of the study of new Guidelines, including for the areas surrounding Japan.

4.4. Some changes after the Murayama Cabinet

This study resulted in the new Guideline established in 1997 and the relevant laws which were passed by the Diet in 1999. The standard of “not constituting the integral part of the use of force” was maintained. Clarified activities covered most of the activities in the “rear area” except the supply of weapons and ammunitions. The “rear area” was defined as including the high seas and international airspace around Japan, which were distinguished from areas where actual combats operations were being conducted. The concept of “a situation in areas surrounding Japan” would be not geographic but situational.

The fact that the new Outline was drafted by the Murayama cabinet was politically important because it formed a bipartisan consensus, including all major political parties except the Communist Party, on the basic principles of defense policy.

After the Murayama Cabinet, in the reshuffle of political parties, a large part of the members of the former Socialist Party merged into the new Democratic Party. One major component of “regime 55” finally disappeared.

5.The Changes Under the Koizumi Cabinet

5.1.The response to the terrorist attack

This paper will now study the response of the Koizumi cabinet to the terrorist attacks on September 11, 2001. Prime Minister Junichiro Koizumi responded quickly to the crisis, demonstrating leadership in support of the U.S. in the aftermath of the attack. PM Koizumi visited New York on September 24, 2001, personally viewed ground zero, and held a press conference with New York State Governor George Pataki and then-New York City Mayor Rudolph Giuliani before meeting with President George W. Bush in Washington on September 25th.

5.1.a. The enactment of the Anti-Terrorism Special Measures Act and the following deployment of Self-Defense Forces

The most important part of PM Koizumi's response to the events of September 11 was the enactment of the Anti-Terrorism Special Measures Act and the resulting deployment of Self-Defense Forces.¹⁶

As this paper has already mentioned, the succession of crises over the past ten years provided a context of favorable conditions for PM Koizumi's proposals, conditions PM Kaifu did not have when the Gulf crisis occurred.

There already had been many precedents of dispatching Self-Defense Forces overseas in peace time as a PKO force. There was an established Guideline on corporation with U.S. forces in the cases which included the situation in the area surrounding Japan.

In the Diet, there was a wide range of political support for the positive role of Self-Defense Forces as long as it was within the restrictions of the Constitution.

The public and the media also had become much more conscious of the importance of crisis management and the importance of the role of Self-Defense Forces.

In addition, over 20 Japanese citizens were actually killed in the World Trade Center attack and the idea that this attack was a challenge to modern civilization was widely shared by the Japanese people.

Working in the political context of these conditions, PM Koizumi succeeded in the first deployment of the Self-Defense Forces overseas in war time within less than 2 months after the

¹⁶ For the full text of the Anti-terrorism Special Measures Act and the Basic Plan, see

September 11th attacks. Following the conventional argument over the use of force, explicitly connecting the response to the terrorist attacks that took place on September 11th, and limiting the term of the bill to two years, PM Koizumi was able to minimize the opposition in the Diet.

The Anti-terrorism Act allows Self-Defense Forces to implement logistical support to foreign forces, with the exception of supplying weapons and ammunitions and the like, and to provide assistance to affected people. The act covers almost the same range of operations as the case of the situations in areas surrounding Japan. The implementation of this support is limited by the act to areas in which combat is not taking place or not expected to take place.

The act allows for activities in the territory of foreign countries for the first time on the condition of consent from the territorial countries. The new act also expands the use of weapons to protect the lives of those who are with the Self-Defense Forces and have come under SDF control while conducting their duties.

The amendments in the Diet required legislative approval of the Basic Plan, which specifies the activities of Self Defense Forces within twenty days after their launch. The Democratic Party, which is the largest opposition party and whose leader, Yukio Hatoyama, is a grandson of former conservative Prime Minister Ichiro Hatoyama, basically supported the deployment of Self-Defense Forces. It did not vote for the act because of the complications surrounding the negotiations over the amendments, but it voted for the Basic Plan.

The act passed the Diet on October 29th and the first deployment of the Maritime Self-Defense Force started on November 9th. The Basic plan includes logistical support by the Maritime and Air Self-Defense Forces in the area including the Indian Ocean and assistance to the affected people by the Maritime Self-Defense Force in the area including the territory of Pakistan.

This breakthrough was followed by another decision in security policy.

Following the new agreement between ruling coalition parties, the law was amended to lift the suspension of certain PKO activities since 1992 and to allow Self-Defense Force officials the same standard of the use of weapons as the Anti-Terrorism act.¹⁷

5.1.b.Other measures

It should also be noted that even before the deployment of the Self-Defense Forces, Japan

<http://www.kantei.go.jp> (the Web site of the Prime Minister's Office)

¹⁷ For the full text of the amendment, see <http://www.kantei.go.jp> (the Web site of the prime

contributed much material and logistical support to the U.S. response to the terrorist attacks through the Japan-U.S. Security Arrangements. The U.S. aircraft carrier which is being used as the platform of air attacks on the Taliban has its base in Yokosuka, and two-thirds of the marines deployed overseas are stationed in Okinawa. As the new Outline rightly pointed out, Japan's support functions as a "public good" for a wide range of regions. The Host Nation Support amounts to 5 to 6 billion dollars annually in recent years, by far the largest amount among the U.S. allies.

Japan also took domestic measures against terrorist attacks and gave diplomatic and financial support for the new government in Afghanistan and for Pakistan.

Terrorist assets were frozen in concert with the U.S. action¹⁸. To counter any possible terrorist attack on Japanese domestic targets, an amendment of the law was enacted to allow the Self-Defense Forces to guard both their bases and those of U.S. forces on Japanese soil .

As a developed country that has no imperialistic intentions in the affected region, Japan can play an important diplomatic role. Japan has also contributed additional financial support to the affected people in Afghanistan and the government of Pakistan¹⁹.

As for the reconstruction of post-Taliban Afghanistan, Japan hosted a ministerial meeting in Tokyo on the 21st and 22nd of this January, where it pledged to contribute up to 500 million dollars over the next two and a half years.

5.1.c. Problems left unsolved

Despite all the gains addressed in this paper, there remain serious problems left unsolved in Japanese security policy.

Mr. Koizumi declared at a press conference on New Year's day that he would discuss and enact emergency defense legislation during this Diet session. This is the legislation necessary for actual national defense.

It was in 1977 when the study of emergency defense legislation started, breaking a long-lasting political taboo. The study has already clarified many problems to be addressed. Transportation of forces, use of private lands, medical treatments are among the examples. But

minister's office).

¹⁸ For the measures taken by the Ministry of Finance, see <http://www.mof.go.jp>.

¹⁹ The specific measures published by the Japanese government on November 16, 2001 included 36.85 million dollars to assist internally displaced people in Afghanistan and 300 million dollars

there has been no political will to address these problems through legislation so far, because it would inevitably encompass a debate on the trade-off between people's rights and the need for security. Under the new, post-September 11 environment, the range of problems to be examined will expand even more.

PM Koizumi's priority seems to be timely, because there still exists great uncertainty surrounding Japan's security, which was illustrated by the event of the suspicious unidentified boat which deeply violated the territorial waters of Japan and sunk after an exchange of fire with the Maritime Safety Agency (the Japanese Coast Guard) last December.

The Anti-Terrorism Special Measures Act is a temporary measure focusing on the terrorist attack on September 11th. The permanent commitment to international military operations is another major problem to be solved. If Japanese security policy goes further than the Anti-Terrorism Act, the review of the standard of "not constituting the integral part of the use of force" will be inevitable.

The choice would be between two directions in policy. One direction would be a bilateral approach such as allowing the exercise of collective self defense in concert with the U.S. The other direction would be a multilateral approach, such as a new form of participation in military actions initiated by the United Nations.

Different from Article 9, the preamble of the Constitution seems more positive to the concept of Japan contributing to activities undertaken by the international community. Whether to change the interpretation of the Constitution or to change the Constitution itself would be another decision.

5.2. The fiscal policy

Compared with his splendid performance in security issues, PM Koizumi's stance on fiscal policy seems to be controversial at home and abroad, especially in the U.S.

But after the long period of ineffective fiscal stimulus and the waste of public money accompanying it, Japanese people seem to have grown tired of the conventional policy. As was already mentioned, the fiscal condition rapidly got worse in this decade, especially since 1994-1995.

It goes without saying that part of the reason for the current bad fiscal condition is a

of grant aid over next 2 years to assist Pakistani government.

cyclical factor. But the expansion of spending and the tax cuts in the name of fiscal stimulus must also have substantially contributed. Appendix 2 shows the trends of General Account tax revenues, total expenditures, and government bond issues. If we compare 2002 with 1990 just before the Gulf War, the tax revenue drastically decreased from 60.1 trillion yen in 1990 to 46.8 trillion yen in 2002²⁰, while even the stagnant nominal GDP grew from 450.5 trillion to 496.2 trillion in the same period. On the other hand, the total expenditure expanded from 69.3 trillion to 81.2 trillion.

6. Concluding Comments

This paper has followed the changes in security policy, fiscal policy, and politics resulting from the post cold war crises, and the impact of these crises on the improvement, or “normalization”, of Japanese security policy. These crises heavily influenced the changes in the balance of power in the political world, ignited the collapse of “regime 55” and helped bring about the new coalition between political parties. They also triggered the deterioration of fiscal discipline.

Where should Japan go from here? It is difficult to have a clear answer now.

As to the fiscal policy, considering Japan’s rapid aging society, it is obvious that the current situation will not be sustainable in the long run. The problem must be the timing and the extent of tightening the fiscal discipline in the short run under the current stagnant economic conditions.

The security policy will be more uncertain. The international situation in the region surrounding Japan must be a main factor in defense policy decisions. The understanding of neighboring countries about the changes in Japan’s defense posture should also be considered.

When it comes to this issue, we cannot but help compare our situation to that of Germany after reunification. But, unlike Germany’s geopolitical situation in Europe, the region surrounding Japan consists of much more heterogeneous countries, including a number of countries possessing nuclear weapons, and the historically-based suspicions of neighboring countries regarding Japan’s intentions has not been completely wiped out. The United States will continue to play a vital role in maintaining stability in the region. The Japan-U.S. Security Arrangements should be maintained as a “public good” of this region. If Japan wants to play a more positive role in the international

²⁰ The permanent reductions of income tax and corporation tax starting from 1999 had no offsetting revenues. The tax revenue in 2000 and 2001 increased temporarily by the tax on

community, its policymakers should not ignore these basic geopolitical factors.

Another factor also should not be ignored. It is the preparedness of Japanese people for the shifts in public attitudes any major changes in Japan's defense and foreign policies will necessarily bring about.

In this writer's view, the atmosphere of postwar Japanese society is to some extent similar to that of the U.S. and Britain after W.W.I.

The first time this writer had such an idea was when he read some works by F. Scott Fitzgerald several years ago. After W.W.I, the U.S. reverted back to isolationism very quickly and did not enter the League of Nations, although the League was established based on President Woodrow Wilson's idea. This writer believes Fitzgerald represented very well the atmosphere of this era in his fiction.

Terumasa Nakanishi, who has written many books on the history of the British Empire, depicts British society after W.W.I very critically. According to Nakanishi's books, having experienced many "vices" of war during W.W.I, British people focused on living a life of pleasure in the 1920s and 1930s, and avoided taking responsibility in world affairs although it was still necessary for the world order.

The examples of the "vices" of war Nakanishi cites in the British case during W.W.I are impressively similar to those of Japan in W.W.I. So many people killed in vain because of stupid commanders. So many lies made by the government. So many negative consequences in the lives of people on the home front.

History shows that these prevalent attitudes among the United States and Great Britain following W.W.I helped to allow the rise of Nazism and the catastrophic results of W.W.II. The diplomatic and military mistakes of Munich and Pearl Harbor²¹ are remembered as examples never to be repeated. One lesson from W.W.II for people in both countries is that one should not hesitate to use force when it is necessary to defend democracy.

This lesson seems to be commonly shared by people, especially political leaders in both

the lump sum payments of interests on 10 year-term Postal Saving deposits.

²¹ As to the comparison between the terrorist attack on September 11th and the attack on Pearl Harbor, it should be noted that the attack on Pearl Harbor was the fight between combatants and was totally different from the terrorist attack. But we can not deny the importance of Pearl Harbor, which brought the irreversible changes in the U.S. society.

Anglo-Saxon countries. The views expressed by both candidates in the second Presidential debate between Mr. Bush and then-Vice President Al Gore in 2000 is an example.

On the other hand, Japanese people, fortunately or unfortunately, did not experienced W.W.? at the public level. For them, W.W.? was their first direct experience of total warfare in the modern age. While they came to understand so seriously the “vices” of war as people in the U.S. and Britain did after W.W.? , they did not experience the same lesson as people in the U.S. and Britain did after W.W.? .

The historical process in which Japan developed its current democratic system also affected the people’s attitudes and beliefs. Throughout Japanese history, most of the political rights and democratic systems have been handed down by somebody in authority - in the prewar period, by the government as a favor from the Emperor, in the postwar period, by the U.S. occupation forces. The common thread has been the lack of grass-roots activism to obtain liberty. Basically, Japanese people have not had to fight for their democracy.

In the U.S. after September 11th, the word “sacrifice” has been used for an impressive positive effect in political discourse and American society. The lack of historical experience to sacrifice for democracy in Japan tends to lead to the unlimited emphasis on people’s lives and their rights. It has prevented any tough decisions in times of crises by the Japanese government which might impinge on the lives and rights of the Japanese people.

If we go further than the Anti-Terrorism Act by either changing the interpretation of the Constitution or changing the Constitution itself, it will inevitably demand tougher decisions by the government and people as to the basic obligations of citizens to their society and Japan’s basic obligations as a member of the international community.

As to the terrorist attacks on September 11th, there was a clear distinction between what was right and what was evil. So it was relatively easy to get consensus among Japanese people about the response to the attacks. But it is still questionable if Japanese people are well prepared for the future challenges. The emergency defense legislation must be a primary test of people’s preparedness for “sacrifice”.

The fiscal policy of PM Koizumi can also be interpreted within this context. After a decade of stagnation, people seem to realize that they cannot achieve new growth in the long run without “sacrificing” old vested interests in the short run.

As many critics pointed out, there may be risks about the future of the Koizumi Cabinet.

We should continue to be very cautious about the direction of the economy. We also should be careful about the direction of the people's will and the unstable international situation. But this time can be a historic opportunity for Japan to build a healthier society and assume its proper role in the international community.